AVIVA INVESTORS

HORIZONS

The first signs of tomorrow

Horizons. The House View from Aviva Investors.
What's emerging. What it means. What's next.

Translating market views into actionable insights for investment professionals.

The global economy is gaining greater momentum than many expected, but faces a less forgiving policy and market environment. Explore our latest thinking on resilient growth, artificial intelligence and recurring supply shocks, and what these forces could mean for portfolios.

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Executive summary

After a tumultuous year of geopolitical upheaval, the global economy enters 2027 with more positive momentum than expected.

Consumption, investment and corporate earnings have proved resilient despite repeated energy, trade and geopolitical shocks.

But the backdrop remains challenging. Global growth is moderate and below trend, while sticky inflation means interest rates are likely to rise further. For now, the cycle is intact, but the policy and market environment has become markedly less forgiving.

Three themes define our outlook for the year ahead

Resilient demand and renewed inflation pressure will keep interest rates higher for longer.	Artificial intelligence (AI) is no longer just a financial market theme; it has become a defining feature of the world economy.	Energy and supply disruptions remain notable risks in a more fragmented world.

Crucially, these themes reinforce the value of looking across public and private markets rather than considering asset classes in isolation. The capital demands created by AI, energy security, infrastructure and supply chain resilience will be financed across public credit, private debt and real assets.

The themes also compound one another. The AI buildout supports economic activity and corporate earnings, but also increases demand for infrastructure, semiconductors, electricity and financing. At the same time, investment in energy and supply chain resilience, alongside supportive fiscal policy, adds to capital demand and upward pressure on long-term yields.

The result is a backdrop of relatively resilient growth, but one in which country, sector and asset class selection matter more than ever.

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THEME ONE

Resilient growth meets higher inflation and yields

WHAT WE THINK

Growth remains resilient, but persistent inflation is likely to keep interest rates and bond yields higher for longer.

PORTFOLIO EXPRESSION

Remain positive on risk assets, while being selective within bond markets. Favour fixed income markets where expectations for interest rates appear too high in light of the economic outlook.

THEME TWO

Artificial intelligence reshapes the economic cycle

WHAT WE THINK

The artificial intelligence (AI) buildout supports investment and earnings, but concentrates equity returns and creates bottlenecks in the supply of power, chips, memory, data centres and financing.

PORTFOLIO EXPRESSION

Maintain exposure to technology and the enabling infrastructure via equities, not corporate bonds, while preparing for dispersion and periodic corrections.

THEME THREE

Supply shocks become the new normal

WHAT WE THINK

Geopolitical fragmentation and fragile commodity routes create recurring price shocks and a premium on secure supply.

PORTFOLIO EXPRESSION

Favour energy security, grids, logistics, strategic materials and commodity exporters; protect against inflation and political volatility.

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Our highest conviction calls

EQUITIES

Stay constructive but focus on earnings delivery. Prefer the US and selected emerging markets, retain exposure to AI enablers (companies that provide key goods and services to the sector), and use any market corrections to add, as long as the structural earnings case remains intact.

GOVERNMENT BONDS

Invest where interest-rate expectations appear too high compared to the economic outlook, rather than simply chasing the highest yields. Prefer short-dated UK and Canadian government bonds to US government bonds. Be selective in longer-dated government bonds and favour selected emerging-market local (domestic) currency debt, particularly where inflation-adjusted yields are attractive and central bank and government policies remain credible.

CORPORATE BONDS

Remain modestly underweight the broader corporate bond market and cautious on technology-sector debt. Look for income from shorter-dated investment-grade bonds, asset-backed securities and financially resilient companies. Add selectively during periods of market weakness when valuations become more attractive.

EMERGING MARKETS

We see attractive opportunities in selected emerging-market bonds issued in local (domestic) currencies. Higher inflation-adjusted yields, credible economic policies and stronger external finances could deliver attractive income as well as capital appreciation.

CURRENCIES

Remain neutral to mildly positive on the US dollar, while modestly underweight sterling and the euro. Favour selected emerging-market currencies where inflation-adjusted interest rates and economic fundamentals are supportive.

PRIVATE MARKETS

Focus on durable income, underpinned by exposure to long-term structural trends such as energy security. Selectively overweight private debt where the premium for illiquidity and lender protections remains strong. Favour real estate and infrastructure with resilient, inflation-linked income, and assets that ease supply constraints in essential services.

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Risks that could change the regime

Supply disruption	The pandemic, tariffs and US-Iran war have all demonstrated the risks of supply disruption. A further severe disruption could turn recurring price shocks into global stagflation, combining low growth or a recession and higher inflation.
Government-bond market disruption	Markets are already concerned about high government borrowing in many economies. A sharp sell-off in government bonds could increase borrowing costs further, put additional pressure on public finances and cause bond prices to fall.
An artificial intelligence bust	Weak returns on the vast capital spending by AI groups, rising leverage or a regulatory backlash against the technology could trigger a sharp repricing across technology in both equities and credit.
Artificial intelligence-driven productivity boom	A productivity uplift, driven in part by the roll-out of AI, could lift growth, lower inflation, broaden the AI gains and improve public finances.

The opportunity is not simply to choose risk-on or risk-off. It is to identify where resilient cash flows, scarce capacity and mispriced policy expectations offer compensation for the risk taken.

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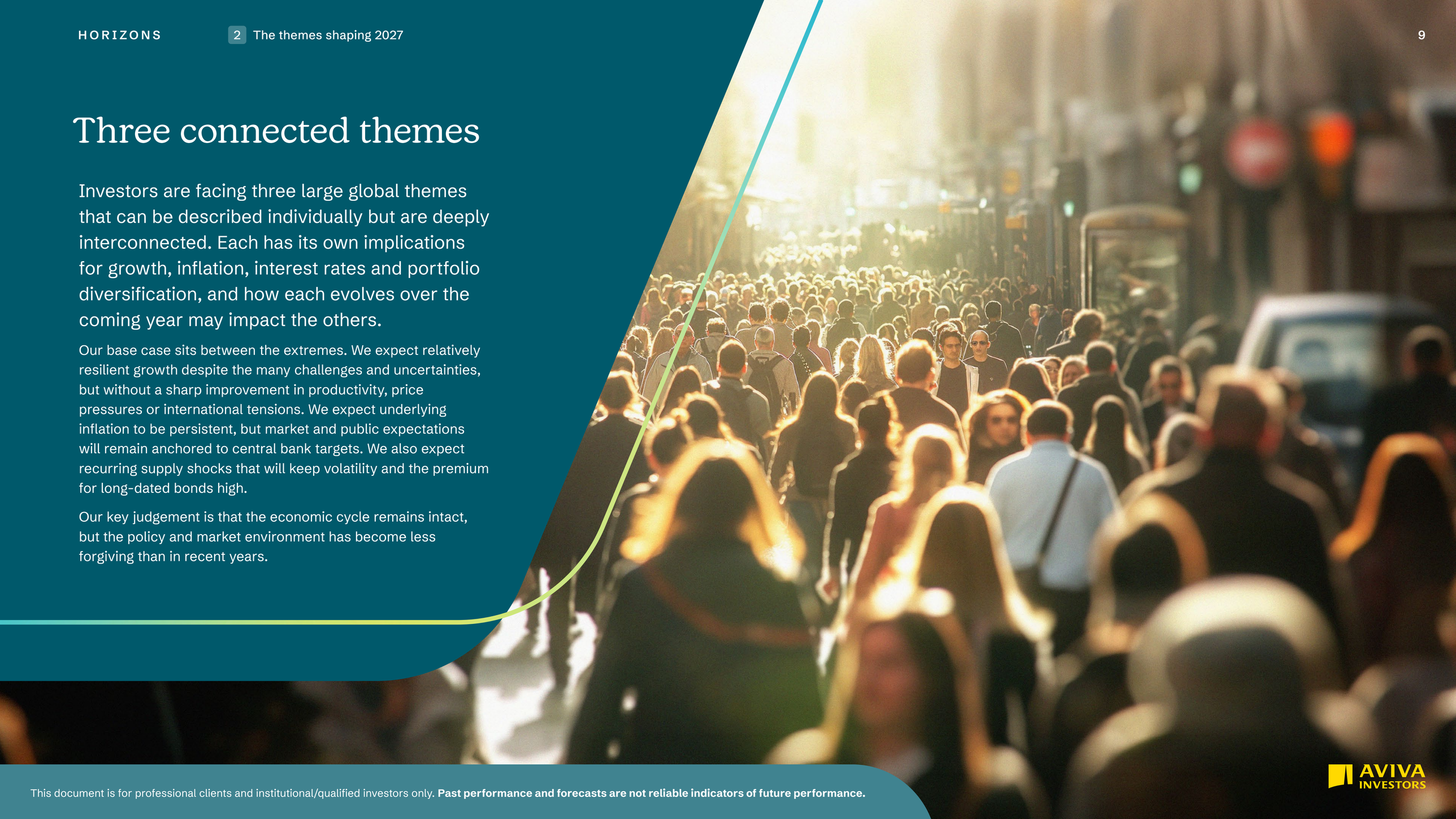
Three connected themes

Investors are facing three large global themes that can be described individually but are deeply interconnected. Each has its own implications for growth, inflation, interest rates and portfolio diversification, and how each evolves over the coming year may impact the others.

Our base case sits between the extremes. We expect relatively resilient growth despite the many challenges and uncertainties, but without a sharp improvement in productivity, price pressures or international tensions. We expect underlying inflation to be persistent, but market and public expectations will remain anchored to central bank targets. We also expect recurring supply shocks that will keep volatility and the premium for long-dated bonds high.

Our key judgement is that the economic cycle remains intact, but the policy and market environment has become less forgiving than in recent years.



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THEME ONE

Resilient growth meets higher inflation and yields



Global activity is uneven but more resilient than anticipated after the inflationary shocks of tariffs, energy supply disruptions and rising global interest rates. Consumption has held up, investment remains firm and, on a global view, financial conditions are not yet restricting economic activity.

The US continues to lead the large, developed economies, supported by household demand, business investment and a wide fiscal deficit. But with the inflation outlook looking less benign, the Federal Reserve is likely to raise interest rates further.

Europe is more exposed to energy, trade and manufacturing weakness than the US. Even so, the euro area has avoided the deeper slowdown many had expected. Household savings provided a buffer and an expansion in German government spending has supported domestic demand. But Europe has less underlying momentum than the US and the risk now is that further tightening in monetary policy by the European Central Bank (ECB) could have a damaging impact on the region's economy.

UK growth has surprised to the upside this year, but the strength has been narrow and concentrated in two AI-exposed sectors that continue to reduce headcount. Restrictive monetary policy and a weak labour market point to slower growth in 2027. With inflation predominantly energy-driven and little evidence of second-round effects, we do not expect the Bank of England's recent rate increase to develop into the sustained hiking cycle currently priced by markets.

Canada presents a similar disconnect between the underlying economic reality and market expectations. Its fragile growth and contained domestic inflation sit uneasily alongside market expectations for substantial interest-rate rises.

In Japan, durable wage growth and domestic inflation should allow a gradual normalisation of borrowing costs after decades of negative or near-zero interest rates. But this will have consequences for Japanese government bond yields and global capital flows, which for decades have been driven by the ability of global investors to borrow cheaply in Japan to invest elsewhere.

China remains on a different path. Economic growth and exports are still comparatively strong, but weakness in the property market, high debt, soft domestic demand and an ageing population continue to weigh on consumer spending. Low inflation is also likely to keep China's interest rates well below those in developed markets.

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THEME ONE

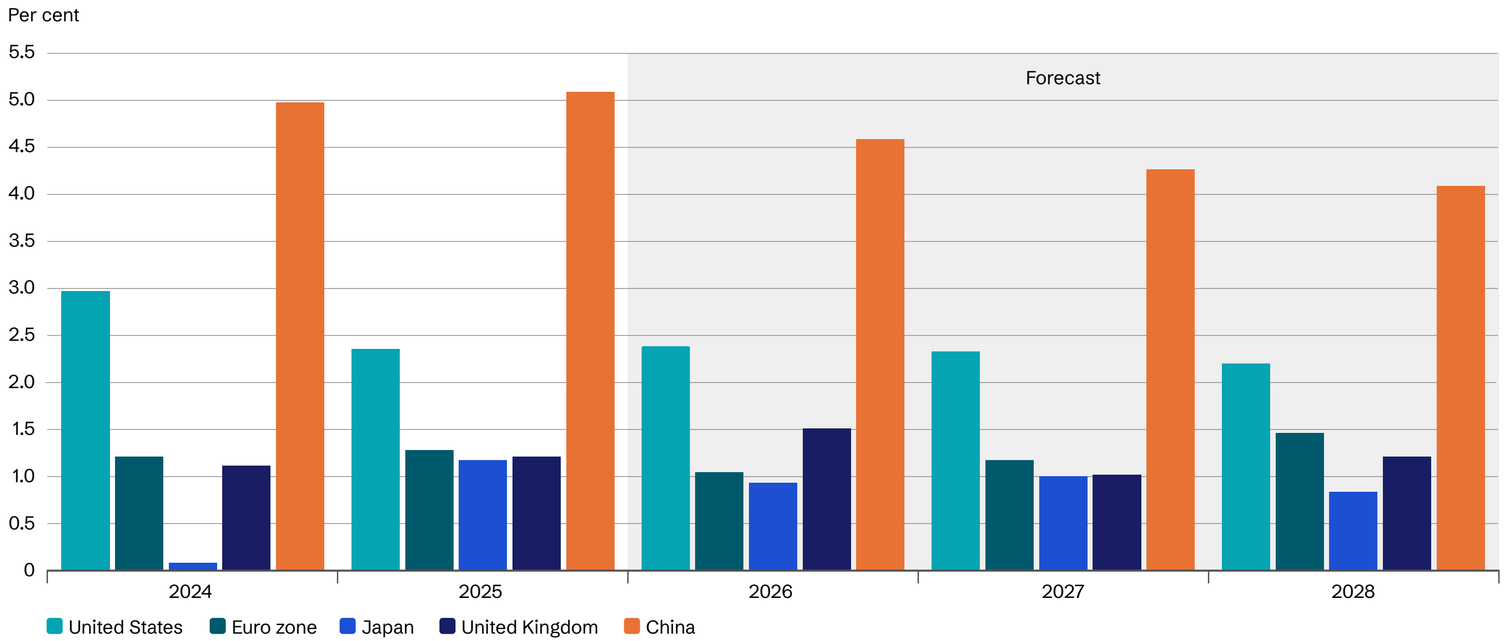
The common thread across all regions is that nominal activity is likely to stay firm, and this is the key factor for investment portfolios, because it supports revenues, margins and cash flows.

But the most important questions from here on in are: which economies can absorb higher real interest rates, and where have expectations for higher interest rates moved too far ahead of domestic economic fundamentals?

Our macroeconomic call

2027 is likely to deliver resilient growth and high interest rates.

Figure 1. Aviva Investors GDP growth projections



Forecasts is not a reliable indicator of future performance.
Source: Aviva Investors, Macrobond. Data as of 13 November 2026.

THEME TWO

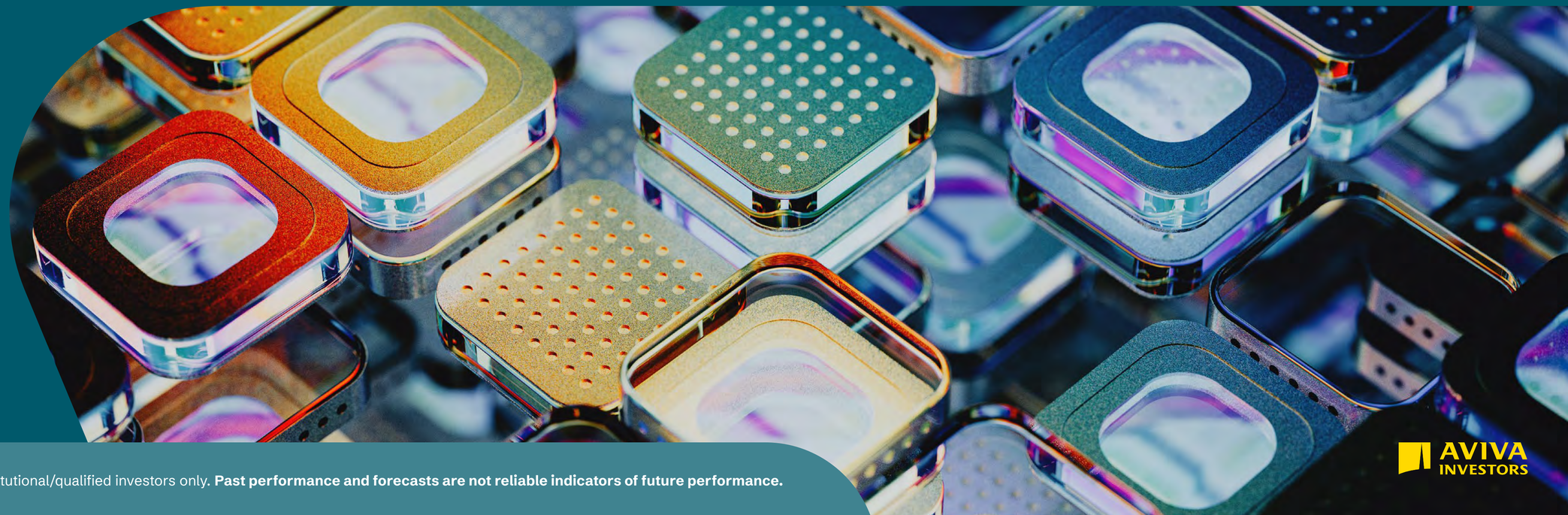
Artificial intelligence: From market theme to macroeconomic cycle

Artificial intelligence (AI) is already shaping the corporate earnings cycle and the real economy. Spending on data centres, semiconductors, power networks and software is boosting near-term investment, especially in the US and North Asia. This vast buildout is not especially sensitive to interest rates or energy prices, and in some markets it is helping to push both higher.

There is therefore a vital distinction to be drawn between the disruptive near-term economic impact of the AI buildout and the longer-term improvement in productivity that the technology could provide.

Before AI efficiencies can deliver a significant productivity boost and help curb inflation, economies must finance and build the physical capacity that enables it. In the short term, that creates potentially inflationary demand for construction, electricity, technical labour and imported components. At the same time, semiconductor and memory chip shortages can generate their own inflation pressures, even if broader manufactured goods inflation remains subdued.

From an investment perspective, the key question is not whether AI will have a substantial impact on markets and economies, but where and when the value and returns will accrue.



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THEME TWO

Earnings and market returns remain concentrated in a small number of companies, capital spending is rising faster than profitability, and precisely what the future “AI economy” will look like is still unknown. But we can be sure the gains will not be evenly shared. Model builders, hyperscalers, chip producers, utilities, data centre owners and software companies will not all capture the same returns.

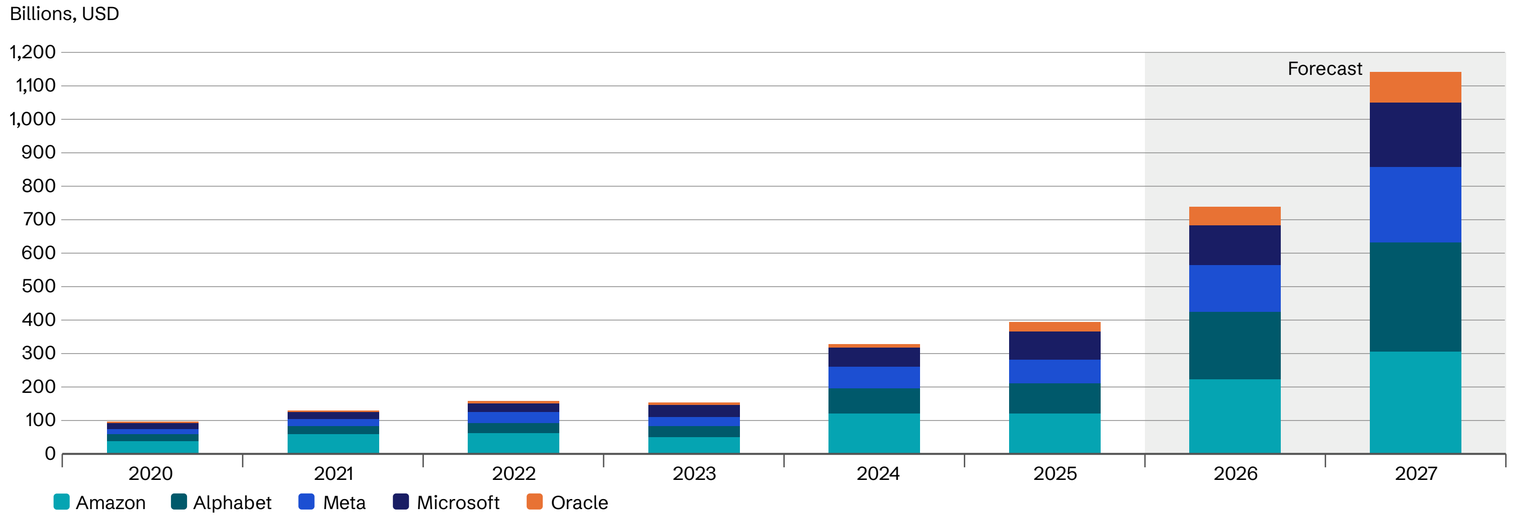
There will be outright winners, partial winners and undoubtedly some losers. This raises the risk of sharp market corrections when profits or revenue growth disappoint, but this is a significant opportunity for active investors.

We remain positive on technology companies because earnings are still delivering. However, heavy hyperscaler bond issuance argues for caution in investment-grade technology credit, where supply can widen spreads before fundamentals deteriorate.

We also favour the enabling layer: energy, grids, memory, semiconductors, data centres and industrial automation. These can benefit from the buildout without requiring investors to identify the eventual winners in the AI sector.

The constraint on AI’s expansion is increasingly physical rather than conceptual. Energy availability, grid connections, advanced chips, high-bandwidth memory, cooling capacity and skilled engineering labour are becoming macroeconomic variables. Regions that can supply reliable energy, land, development permissions, fibre connections and capital will capture a larger share of the buildout. Those that cannot may still adopt AI tools, but they will import more of the required infrastructure and will capture less of the investment impulse. This is why the AI cycle affects industrial policy, utilities, commodity demand and credit markets as much as technology stocks themselves.

Figure 2. Hyperscaler complex



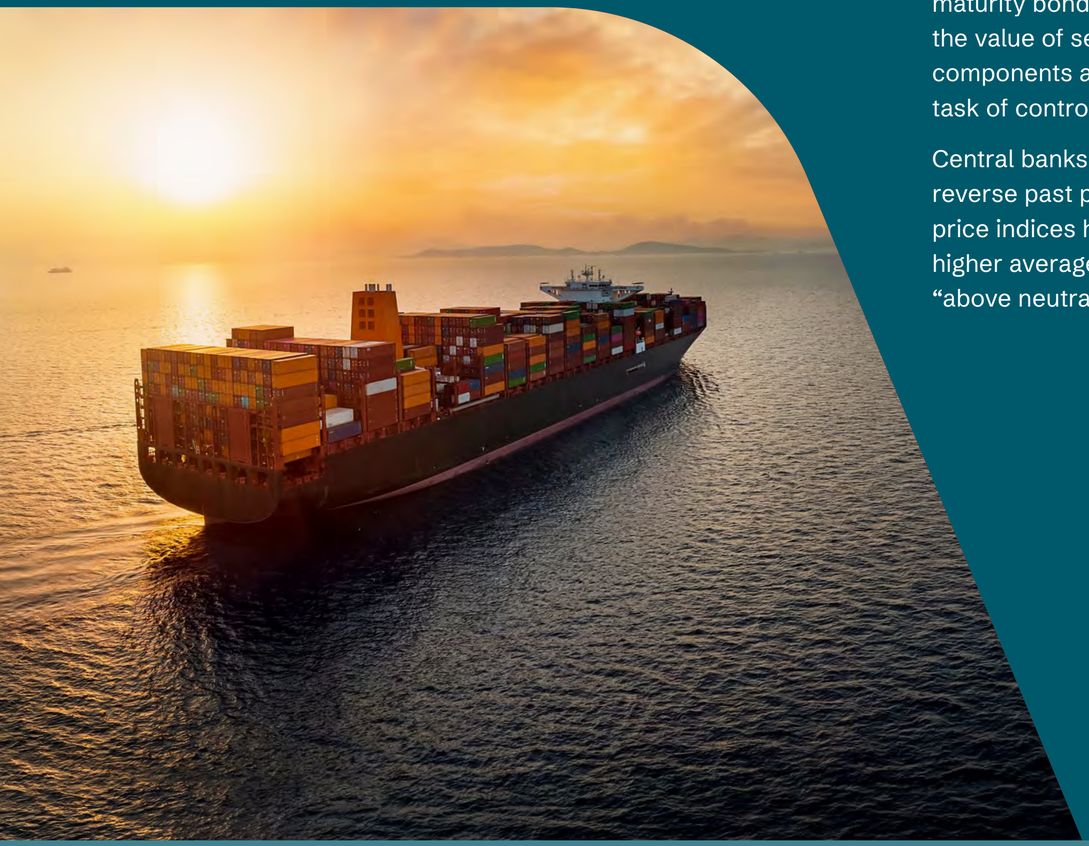
Note: Forecast for 2026 and 2027 based on average of analysts’ expectations. **Forecasts are not a reliable indicator of future performance.**
Source: Aviva Investors, Bloomberg. Data as of 13 November 2026

Our artificial intelligence call

The buildout will drive growth and inflation before it becomes productivity-enhancing and disinflationary.

THEME THREE

Supply shocks are the new normal



Geopolitical fragmentation, energy-security concerns and supply bottlenecks for critical materials have made price shocks more frequent. These have not so far produced a repeat of the 2021–2022 inflation spike, let alone a 1970s-style inflationary spiral. But they are weakening the role of long-maturity bonds as portfolio hedges. They are also increasing the value of secure supply for commodities, materials, components and labour, and complicating central banks' task of controlling inflation.

Central banks target future inflation rather than trying to reverse past price rises. As a result, supply shocks can ratchet price indices higher even if inflation later falls, leading to higher average inflation and more frequent episodes of "above neutral" real interest rates.

To complicate matters further, the effects differ significantly across regions.

The US benefits from domestic energy and natural resources. Europe and the UK are more exposed to imported energy. Manufacturing-heavy European economies also face pressure from Chinese competition.

In broad terms, a commodity supply shock will have different impacts depending on whether an economy is an exporter or importer of that commodity. Exporting countries can receive a boost to their fiscal position and terms of trade as the value of their exports rises faster than their cost of imports. Conversely, commodity importing countries will have to absorb the shock through weaker demand and tighter policy. Governments and companies are responding to these risks and pressures by diversifying their supply chains, building redundancy into their operations and infrastructure, and shifting production to trusted partners.

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THEME THREE

This approach supports investment in defence, logistics, power networks, strategic metals and domestic manufacturing, but reduces efficiency and increases the amount of capital required to deliver a given level of output.

However, not every supply disruption should lead investors to focus solely on hedging against inflation. The investment impact of a supply shock depends on whether it is temporary; whether falling demand offsets the price rise; and whether central bank policy absorbs or amplifies the damage. A supply shock can also create investment opportunities.

We therefore distinguish between one-off commodity spikes, which may fade quickly, and persistent scarcity in assets that are hard to replace from other sources. The latter case is where the most durable investment opportunity lies, notably in infrastructure with regulated or contracted cash flows, critical inputs with constrained supply, and companies that can pass higher costs on to their customers without destroying demand.

Our supply call

Resilience will command a premium. The investable opportunities are in secure supply and infrastructure, not in broad geographic or sector labels.

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Regime risks

Supply cut-off

The closure of the Strait of Hormuz and its impact on oil and gas supplies have been the most visible impact of recent geopolitical conflict. A severe escalation in the Middle East or the weaponisation of other supply chokepoints affecting other materials (like critical minerals or semiconductors), could create shortages large enough to damage market confidence in central banks' ability to tame inflation. And if inflation expectations become significantly detached from central bank targets, central banks could be forced into destructive interest-rate rises to reassert control. Ultimately this could lead to recessions or stagflation.

A supply shock would favour real assets and pricing power but hurt consumers and long-duration bonds.

Bond-market turmoil

Large government deficits, heavy private-sector debt issuance and higher leverage by market intermediaries could turn a shift in investor confidence into a disorderly bond market. Technical policy interventions to fix the problem could then worsen the situation if they damage credibility. This would cut governments' room to spend, reduce corporate borrowing, and possibly lead some countries into austerity.

Bond-market turmoil would also punish duration, leverage and those economies with a weak fiscal position. But it would reward holders of more liquid assets and would help curb inflation.

Technology bust

Weak returns on capital spending, rising leverage, regulatory backlash or operational failures could trigger a sharp repricing of technology equities and credit. The buildout may continue even if investors' run of exceptional returns does not, but the impact on personal wealth among AI investors would probably damage consumption and cause an AI bust to spill over into other sectors and markets.

These risks could have varying impacts on different economies and markets, but they share one implication: flexibility is now essential for investors to navigate a rapidly changing landscape successfully.

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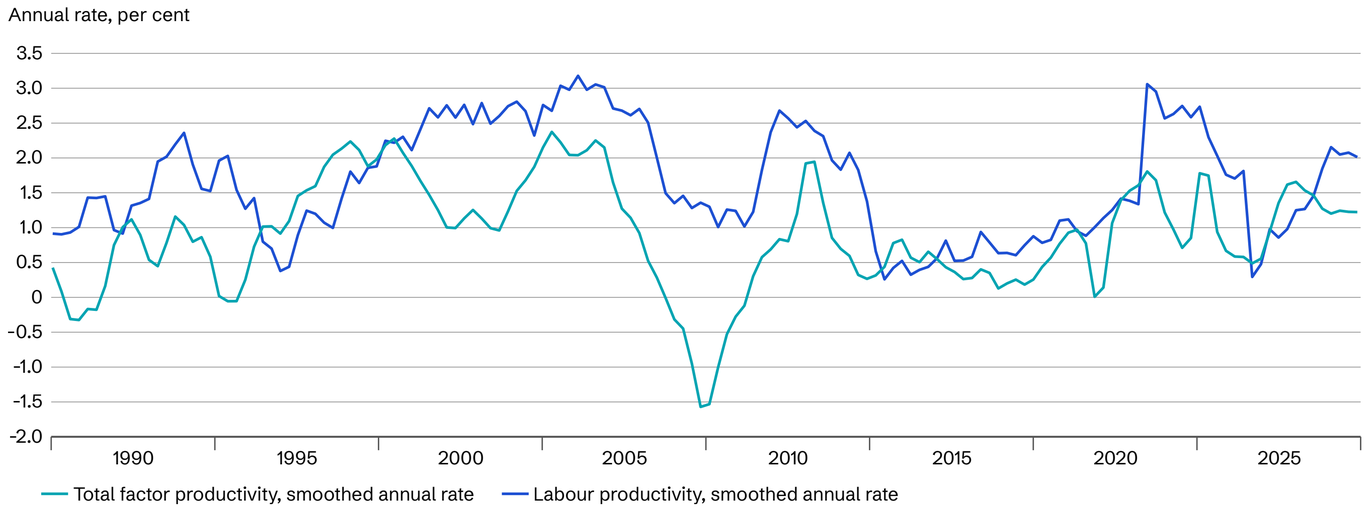
Regime risks (continued)

Productivity boom

A boost to automation led by developments in AI could raise output across sectors without widespread job losses, improving living standards, corporate revenues and public finances. This is the principal *upside* risk. There are signs that this is already underway in the US (Figure 3) but has yet to spread beyond that market.

A productivity boom would be positive for equities beyond just the tech sector and would allow yields on long-dated bonds to stabilise despite stronger growth.

Figure 3. US productivity is rising towards 1990s rates



Source: Aviva Investors, Macrobond (San Francisco Fed, BLS). Data as of 13 November 2026.

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Asset-class and regional views

The macroeconomic backdrop is positive for corporate income and earnings, but more challenging to passive, long-maturity bond investment, and to index-based passive equity investment.

We favour exposures where the underlying cash flows are strong, market pricing is too pessimistic or scarcity is creating durable demand. We are more cautious where valuations, the scale of debt issuance or political risk leave little margin for error.

EQUITIES

An earnings cycle for the ages

The current earnings cycle is exceptional in its strength and composition. Going back to the 1950s, only ten earnings cycles are comparable to the current one, (Figure 4) and most came as a rebound from recession or a by-product of inflation. Earnings surges driven by positive factors, such as the productivity boom of the mid-1990s, are much rarer, and the current cycle is one of them. Technology is at its heart, and its resilience extends beyond a single industry. That breadth is why equities have successfully weathered trade conflicts, wars, energy disruptions and sharply higher yields without suffering an index-level correction. However, market resilience doesn't mean investors should be complacent.

Sectors that are sensitive to rising interest rates have seen volatility and underperformed sharply as rates spiked but rebounded as rates fell again. Recently, the energy sector has also punched far above its weight as profits soared. Technology has continued to deliver very strong earnings despite the recent price underperformance.

The key risk is therefore that corporate earnings disappoint. But investors already expect a marked deceleration in earnings in 2027 and so far results have shown no sign of that deceleration.

We remain broadly bullish, and the current correction in our view offers opportunities to add to the cyclical exposure and re-engage with robust AI/tech themes at more attractive valuations.

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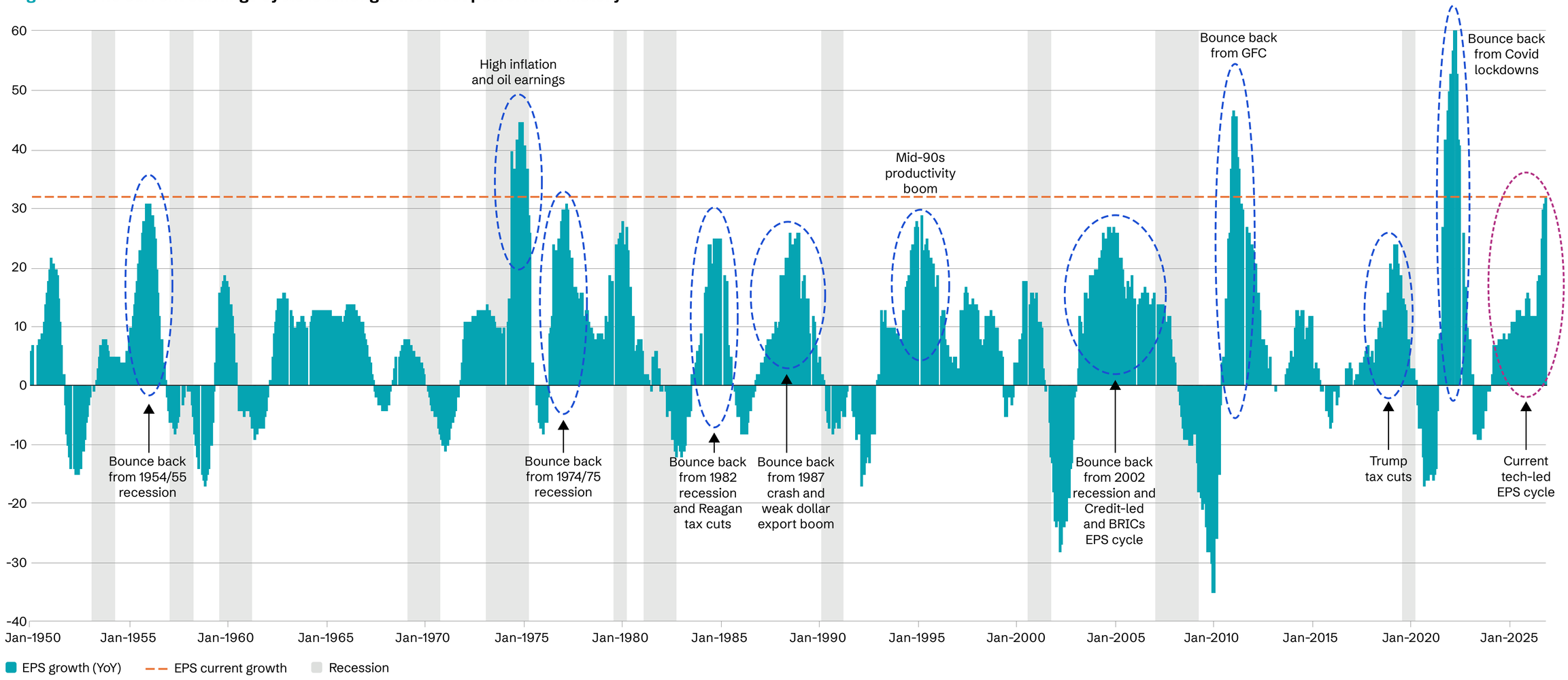
Figure 4. The current earnings cycle is amongst the most powerful in history



Source: Aviva Investors, LSEG DataStream Service. Data as of 13 November 2026.

Equity regional lens

UNITED STATES

The US is our preferred equity market. Earnings, AI investment and relative macroeconomic resilience outweigh the drag from higher yields. But concentration in the technology sector makes it critical that these companies deliver expected earnings.

EUROPE

We are cautious and selective on European equities. Financials, infrastructure and industrial exposures can benefit from investment and scarcity. However, the region's exposure to imported energy costs, political uncertainty and competition from China remain headwinds.

UNITED KINGDOM

UK equity valuations are no longer as compelling and the UK market earnings are very dependent on oil and other commodity prices. Combined with weak productivity and fiscal constraints, this means we are taking a cautious approach.

JAPAN

Corporate strength, improvements to corporate governance and reflation remain positive for Japanese equities. We prefer targeted exposure to automation, physical AI and capital investment. But interest-rate rises will create some pressures, particularly after many years of ultra-cheap money.

EMERGING MARKETS (EX-CHINA)

Our positive view on emerging markets remains in place. Our focus is on countries linked to the AI supply chain, and on commodity exporters with strong trade balances. It is important, however, to avoid using a crude geographical spread of investments as a route to diversification, since some markets will share the same underlying technology exposure.

CHINA

There are targeted opportunities in Chinese equities, but they exist alongside weak domestic demand, a stressed property sector and policy uncertainty. Low-cost AI adoption may benefit users without guaranteeing attractive returns for providers.

Key conviction

We stay broadly positive on equities but demand that companies deliver on earnings.

Actionable insight

We prefer the US and selected emerging markets, retain exposure to companies providing key goods and services to the AI sector. We will use market corrections to add exposure where the underlying case for earnings growth remains intact.

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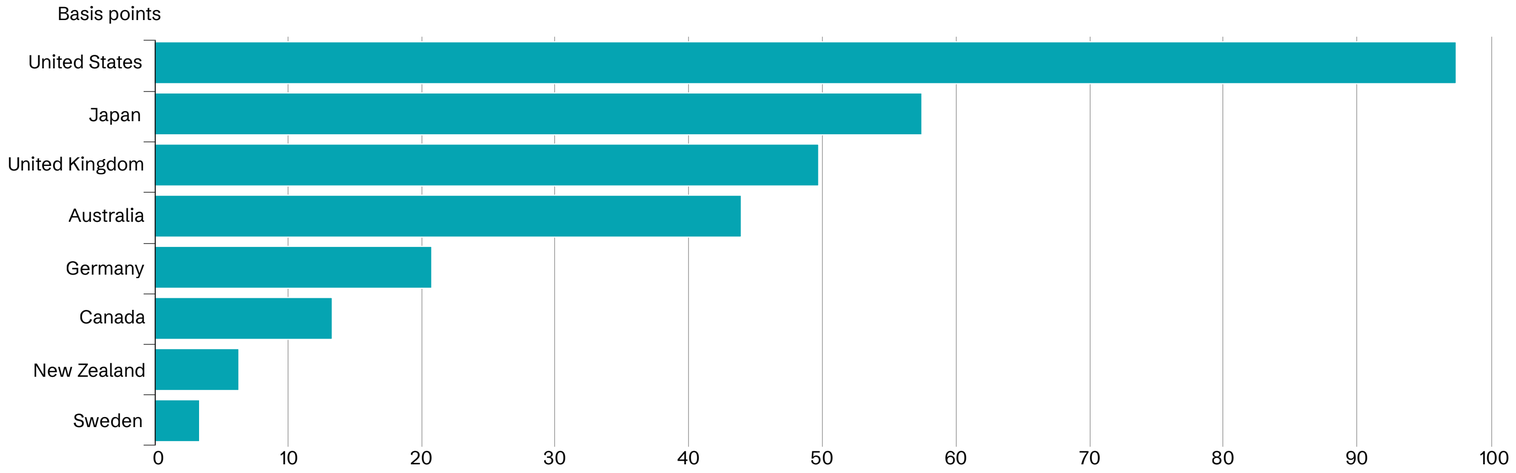
GOVERNMENT BONDS

Not all repricing is equal

Government bond yields have risen sharply across global markets. Energy pressures, higher government borrowing and strong investment demand have increased expectations for interest rates and pushed up yields on longer-dated bonds. However, the outlook differs significantly across regions.

Figure 5. The US is leading the pack, underpinned by strong economic dynamics

2026 change in ten-year real yield



Source: Aviva Investors, Macrobond, Bloomberg. Data as of 13 November 2026.

United States

In the US, the Federal Reserve is likely to continue to raise interest rates as it faces stronger domestic demand and sticky core inflation. Europe, the UK and Canada face a more muted growth outlook and a greater risk that market expectations for rate rises have overshot what their economies can bear.

This creates an important distinction. In some economies, interest rates are high because growth remains strong, providing a supportive backdrop for corporate earnings. In others, rates are being pushed higher by energy-related inflation, government borrowing or supply pressures. In this latter group, higher rates can put greater pressure on economic growth and investment valuations.

We therefore favour markets where interest-rate expectations appear too high relative to the economic outlook, rather than simply investing wherever bond yields are highest.

In the US, additional interest rate rises are broadly justified given resilient economic growth and sticky inflation. We are neutral to slightly bearish on short-dated bonds and neutral on longer-dated bonds that are more exposed to fiscal deficits and upward revisions to potential growth. It is worth noting that US ten-year real yields have experienced the largest year-to-date increase (Figure 5).

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Europe

Expectations for interest rates appear high given the region's weak growth outlook (Figure 6). We expect one further increase from the European Central Bank, where higher government bond yields are already weighing on the economy. This could lead expectations for interest rates to fall, creating opportunities in short-dated government bonds as the curve steepens.

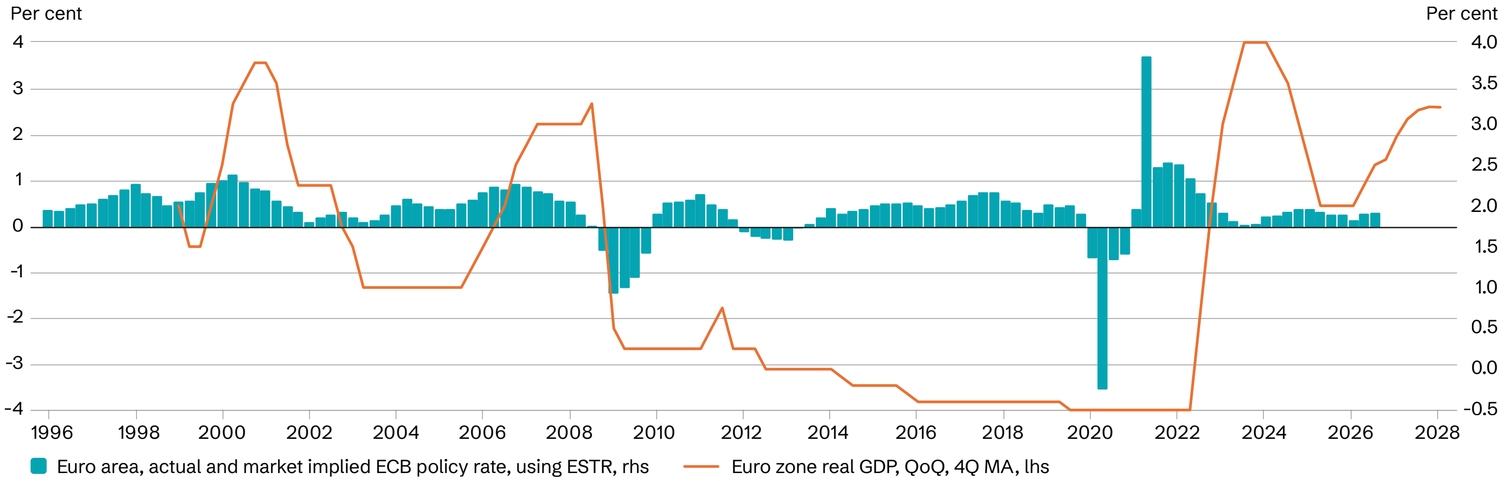
France remains the main risk. Concerns about government finances, the presidential election and recent civil unrest are likely to keep borrowing costs high and could make it more difficult for future governments to address the country's fiscal challenges.

Whatever the near-term outlook for France, stronger economic conditions elsewhere in the euro area, alongside the measures available to the European Central Bank, should reduce the risk of problems spreading across the region.

United Kingdom

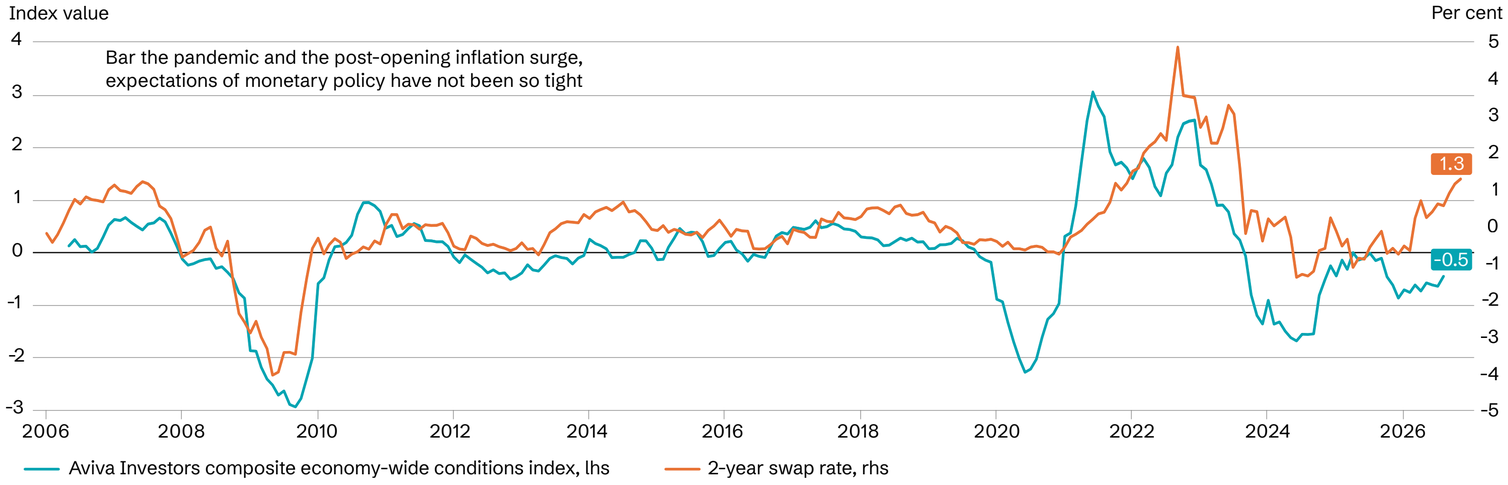
We favour UK government bonds given our views on the weakness of the labour market, softening wage growth and slowing activity (Figure 7). Market expectations for interest rates look too high given the economic outlook, and we therefore favour short-dated UK government bonds. However, the sensitivity of inflation to developments in energy prices will continue to be an important factor in the performance of government bonds.

Figure 6. Market pricing is too restrictive relative to euro zone underlying growth



Source: Aviva Investors, Macrobond. Data as of 13 November 2026.

Figure 7. UK swap rates too high relative to economic conditions



Note: The AI composite economy-wide conditions index comprises the first two principal components of AI labour conditions index, wage growth, inflation, output gap, Citi economic data change index, mortgage approvals and the BoE policy rate. Source: Aviva Investors, Macrobond. Data as of 13 November 2026.

Canada

We favour Canadian government bonds as we think market expectations for further interest-rate rises look too high given the country's weak economic growth and contained underlying inflation.

Australia

We believe interest rates are approaching their peak, which could create opportunities in shorter-dated Australian government bonds.

Japan

As interest rates gradually return to more normal levels, short-dated government bond yields are rising. We remain neutral on Japanese government bonds overall, recognising that higher government spending could periodically push longer-dated bond yields higher.

Emerging markets

We see attractive opportunities in selected emerging-market local (domestic) currency debt. Many emerging-market central banks raised interest rates earlier than their developed-market counterparts, helping to bring inflation under control and giving some scope to reduce rates as inflation falls. Stronger external finances and greater domestic investment have also made many economies more resilient.

However, opportunities vary significantly by country. Energy exposure, government policy and political risks can all affect returns. We favour countries, including Brazil, where inflation-adjusted yields are attractive, inflation is under control and economic fundamentals are supportive.

Key conviction



We will invest where interest-rate expectations appear too high relative to the economic outlook, and where selected emerging markets offer attractive inflation-adjusted yields. Do not simply chase the highest yields.

Actionable insight



We prefer UK and Canadian short-dated bonds versus the United States, we will keep our exposure to long-dated bonds selective and add selected emerging-market local debt where real yields, policy credibility and external balances provide a cushion.

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CORPORATE BONDS

Attractive income, limited spread upside

Corporate fundamentals remain healthy, recession risk is low and near-term default or restructuring risks appear contained. Higher government-bond yields (see previous) have improved all-in returns and made some parts of the corporate bond market markedly more attractive.

Overall, however, investment-grade and high-yield spreads (the yields above that available on government bonds) remain relatively tight by recent standards, leaving limited potential for additional returns. There is also a risk of those spreads widening in the event of greater rate volatility, significant fund outflows or deterioration in expectations for economic growth. We therefore retain a modest underweight position to broad corporate debt.

Within investment-grade corporate bonds, we favour shorter-dated bonds, asset-backed securities (ABS) and financially resilient companies. We are more selective on technology companies, where heavy borrowing is helping to fund significant investment in AI infrastructure. Earnings remain supportive and near-term default risk is low, but rising debt and investment spending are putting greater pressure on cash flows and increasing risks for bondholders.

High-yield corporate bonds continue to benefit from relatively low defaults, but current valuations offer less protection than earlier in the year against weaker company finances and refinancing risks. We favour adding selectively when market weakness creates more attractive opportunities.

Private and infrastructure debt can provide reliable long-term income but, in those areas, we favour investments with predictable revenues and strong lender protections, where investors are adequately rewarded for locking up their capital (see Private markets section). The increasing connection between public and private corporate lending is in itself an important trend. Public and private credit should no longer be treated as separate asset classes – they are part of the same ecosystem, influencing price discovery, transfer of risk and recovery outcomes.

Key conviction



Attractive yields do not justify broad and indiscriminate investments in corporate bonds.

Actionable insight



We maintain a modest underweight to broad credit; earn income through shorter-duration investment grade, asset-backed securities and resilient issuers. We will add risk selectively when spreads deviate from fundamentals.

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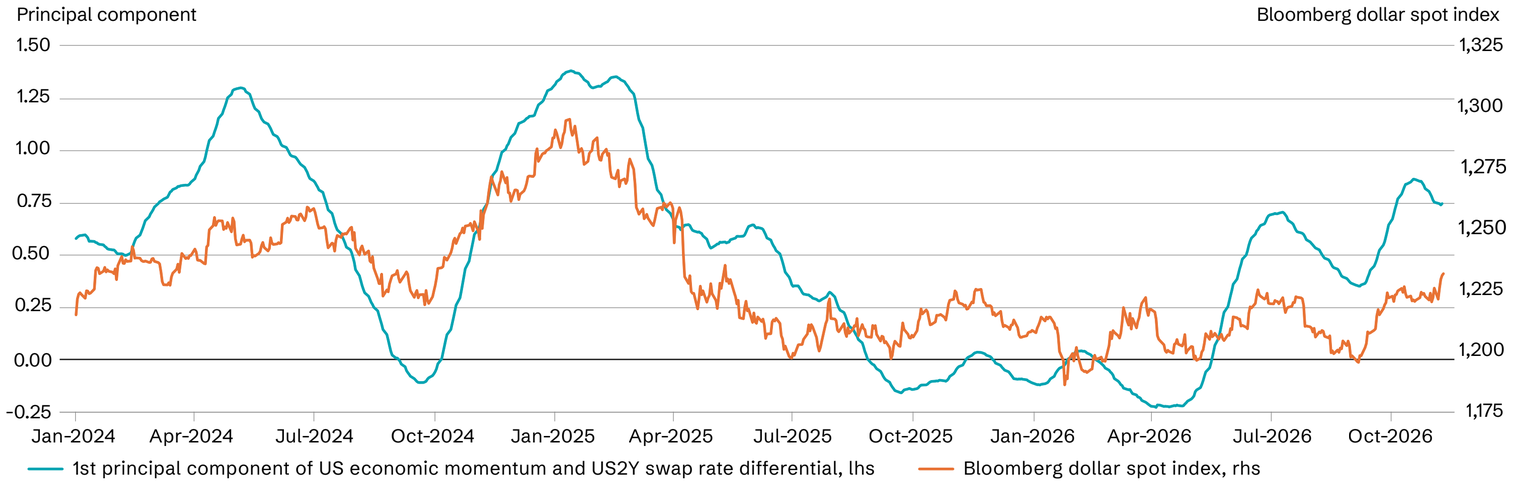
CURRENCIES

Cyclical dollar support, structural fault lines

The US dollar retains cyclical support from stronger US momentum, sticky inflation and the risk of further Federal Reserve tightening beyond that already priced into the market (Figure 8). However, over a longer horizon, persistent deficits, large external financing needs and gradual institutional erosion point in the opposite direction. We therefore hold a mild near-term bullish dollar bias without treating it as a durable structural overweight.

We are modestly bearish on the euro because rate differentials and French political risk remain unfavourable (Figure 9), although stronger balance sheets elsewhere in the region mean a repeat of the euro-area debt crisis remains highly unlikely. We also underweight sterling against the dollar: either the Bank of England will raise rates less than markets currently expect, or higher rates will impose economic damage on the UK. Neither outcome is supportive of sterling.

Figure 8. Cyclical forces still in US dollar's favour



Source: Aviva Investors, Macrobond, Bloomberg. Bloomberg Dollar Spot Index source: Bloomberg. Data as of 13 November 2026.

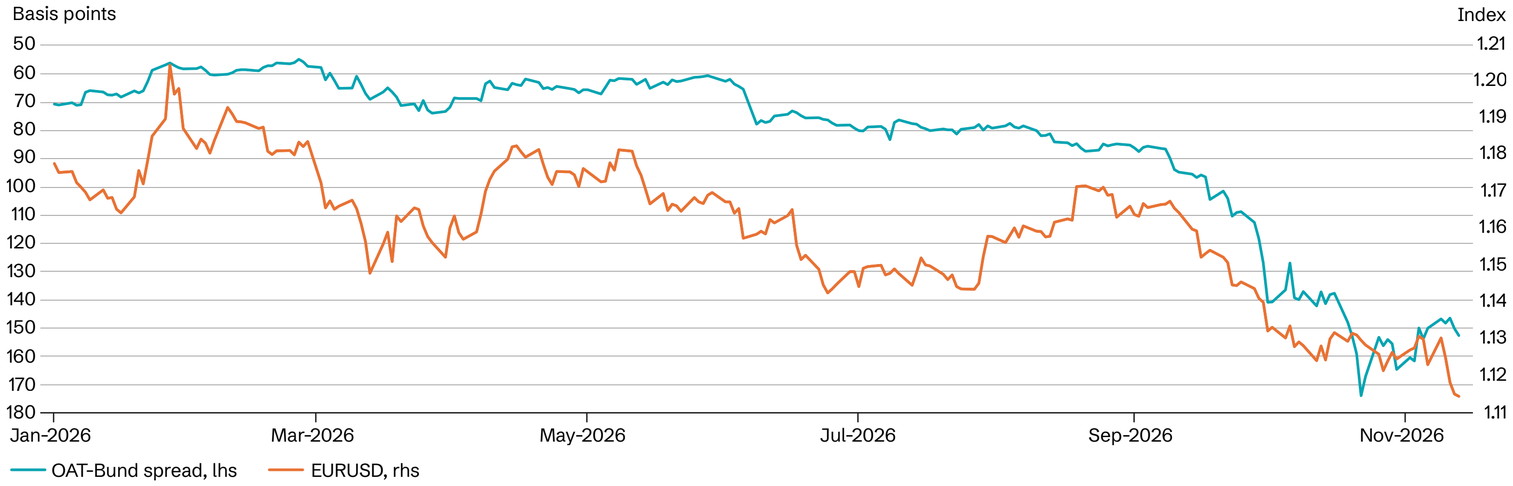
We are neutral on the yen. High US yields remain a headwind to the Japanese currency, while extreme levels will raise intervention risk. We still prefer the high-yielding Australian dollar against lower-yielding currencies, also due to the high investment/high commodity prices cycle, although upside may be limited as the Australian economy has started showing signs of a slowdown.

Emerging-market currencies retain our preference, with high real yields and stronger external balances supporting selected Latin American and central European currencies.

Looking broadly, currency positions can also reflect the asymmetry between regions, most obviously in the likely impact of persistent or rising inflation.

For example, if US growth and inflation remain too firm and the Federal Reserve follows through with its expected rate increases, that will likely support the dollar. But for the euro and sterling, inflation driven by energy costs (combined with weak fiscal positions) could force painful policy trade-offs that damage growth and so weaken these currencies. Selected emerging-market currencies offer a different exposure, however: attractive interest rates backed by orthodox policy, stronger external balances and less dependence on developed-market fixed-income rallies.

Figure 9. We see no euro zone contagion but France will maintain some pressure on the euro



Source: Aviva Investors, Bloomberg. Ten-year year France and Germany yield; EURUSD source: Bloomberg. Data as of 13 November 2026.

Key conviction

We will use currencies to take advantage of the increasing divergence between economies.

Actionable insight

We stay close to neutral on the US dollar, remain modestly underweight sterling and the euro, and favour selected emerging-market currencies.

PRIVATE MARKETS

Durable income, structural growth, selective opportunities

We expect private markets to enter 2027 as a core allocation for investors. The repricing that occurred following the move to a higher rate environment is largely behind us, restoring the income credentials of private markets.

At the same time, structural forces such as energy security, energy transition, digitalisation and demographic change are creating investment needs that are measured in decades. But with more capital targeting private markets, dispersion is widening, so broad exposure is no longer enough. The ability to identify the right themes and optimal access route matters more than ever. We favour private markets for their resilient income streams, exposure to long-term structural trends and diversification of return drivers.

Private debt

Private debt continues to offer some of the most attractive risk-adjusted opportunities across private markets. A higher-for-longer interest rate environment, combined with illiquidity premia that remain above long-term averages (Figure 10), supports return expectations despite tighter credit spreads.

Importantly, private-debt spreads have compressed far less aggressively than public market spreads, preserving relative value.

Pockets of stress have emerged, notably in software lending, and we continue to monitor them closely, but we see these as sector-specific vulnerabilities rather than a sign of weakness across what is a very broad asset class.

In a macroeconomic environment with more volatility, we favour areas where structural protections remain strong and pricing remains disciplined, with investors appropriately compensated for the risks taken. This includes investment-grade non-matching-adjustment assets, asset-based finance (in sectors or structures which offer diversification from cyclical corporates), and carefully selected BB-rated and crossover opportunities where risk is appropriately rewarded. In this environment, the asset class remains well positioned to deliver attractive income and downside resilience.

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AVIVA INVESTORS

Figure 10. Illiquidity premia for investment-grade private debt to Q2 2026



For illustrative purposes only. The value of an investment can go down as well as up and there is no guarantee that the forecasted return will be achieved.

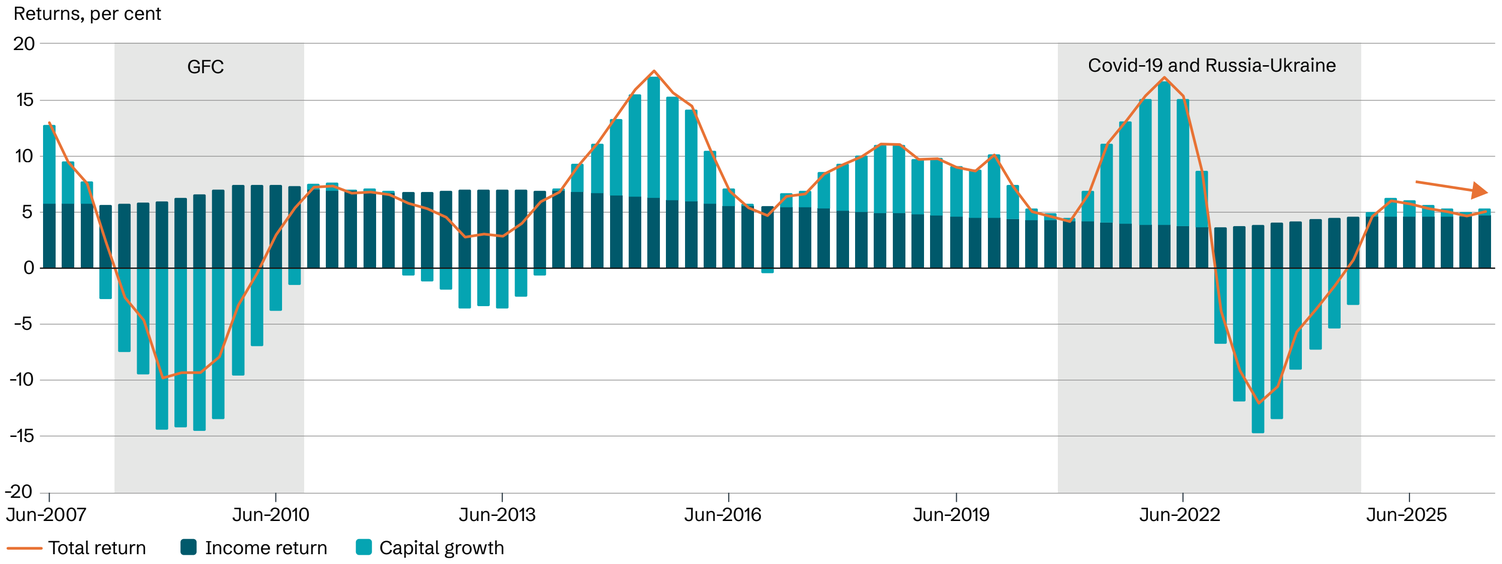
Note: The illiquidity premia are calculated based on Aviva Investors' proprietary deal information. There are various methodologies that can be employed to calculate the illiquidity premium. Please note that the illiquidity premia shown are measured against broad relevant public debt reference data, are rating band (not notch) matched and are not duration/maturity matched. Source: Aviva Investors, and ICE BofA Sterling and Euro Investment Grade Corporate indices. Data as of 30 September 2026.

Real estate

Real estate has re-established its income credentials, with income accounting for roughly 90 per cent of total real-estate returns across Europe in the 12 months to June 2026 (Figure 11). Going forward, we expect less dispersion between sectors but differentiation within them, making asset selection and a focus on resilient income streams critical.

We favour living assets, in particular single-family and European multi-family housing, where affordability pressures, demographic change and limited supply support rental growth and resilient demand. Fundamentals in logistics remain attractive, particularly in areas where there are supply constraints. Value in logistics will benefit from e-commerce, supply-chain adaptations and restrictions on new development activity.

Figure 11. MSCI Pan European Real Estate Index Returns



Graphs are for illustrative purposes only. Past performance is not a reliable indicator of future results.
Source: MSCI Pan-European PFI Funds Quarterly Property Index (unfrozen) published quarterly as of September 2026.

Infrastructure

Infrastructure remains one of our highest-conviction asset classes. While valuation discipline is increasingly important in the face of significant capital inflows, the long-term investment case remains compelling. Energy security concerns, energy transition and decarbonisation, and digitalisation continue to underpin demand for real assets that can deliver cash flows linked to inflation.

Where we differ from the consensus is in our preference for assets addressing grid constraints, including battery storage and flexible generation, rather than for some of the increasingly crowded areas of digital infrastructure, such as data centres. We also see greater opportunities in the infrastructure mid-market, where lower capital concentration and less competitive pressure can support more attractive entry pricing and risk-adjusted returns.

Venture capital

In venture capital, we remain selective across opportunities. Exit volumes remain muted, but the long-term outlook is improving. The UK continues to boast one of Europe's strongest innovation ecosystems, while policy initiatives and growing institutional participation are broadening funding pathways from start-ups to mature businesses. We see particular opportunities in the funding gap faced by later-stage growth businesses, where demand for capital to help them scale up continues to exceed supply.

Key conviction



We focus our exposure on resilient income streams, exposure to long-term structural trends and diversification of return drivers.

Actionable insight



We selectively overweight private debt where the premium for illiquidity and lender protections remains strong. We favour selective areas of real estate and infrastructure with resilient, inflation-linked income, and assets that ease supply constraints in essential services.

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AVIVA INVESTORS

Highest-conviction asset-class expressions

Earnings resilience

WHAT WE THINK

The public equity cycle remains strong but increasingly dependent on companies delivering against earnings expectations.

PREFERRED EXPRESSION

We stay broadly positive on equities. See market corrections as opportunities to add where the underlying earnings case remains strong.

Monetary policy divergence

WHAT WE THINK

Interest-rate rises are better justified in the US than UK, Canada or euro area.

PREFERRED EXPRESSION

We are long UK and Canadian short-dated bonds versus the US. We invest selectively in the euro area to take advantage of rising long-term yields.

Term-premium pressure

WHAT WE THINK

Fiscal issuance and capital demand keep yields high on long-dated bonds.

PREFERRED EXPRESSION

We avoid treating long-duration bonds as a default hedge.

Credit dispersion

WHAT WE THINK

Healthy fundamentals and attractive all-in yields support income, but tight spreads limit broad excess-return potential.

PREFERRED EXPRESSION

Modest underweight to broad credit. We favour shorter-duration investment-grade credit, asset-backed securities and resilient issuers. We take advantage of opportunities to “buy the dip” but do so selectively.

Scarcity and fragmentation

WHAT WE THINK

Secure supply and infrastructure assets attract a premium valuation.

PREFERRED EXPRESSION

We like power, grids, logistics, strategic materials and commodity-linked exposures.

Emerging-market local debt

WHAT WE THINK

High real yields, credible central-bank policies and stronger external balances support selected local-currency government-bond and currency markets.

PREFERRED EXPRESSION

We own selected emerging-market local-currency debt and FX where inflation, fiscal policy and external fundamentals provide a durable cushion.

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AVIVA INVESTORS

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4 Portfolio view

5 Data and forecasts



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AVIVA INVESTORS

Invest in resilience

Our base case of relatively resilient growth, strong earnings and limited near-term recession risk supports equities and selected credit and emerging-market assets.

However, the same economic backdrop also puts upward pressure on inflation, interest rates and the yields on long-dated bonds. We therefore do not rely on long-duration government bonds to provide the diversification they offered in the pre-pandemic regime.

On the one hand equity markets can benefit from higher inflation, on the other, higher rates pose a headwind. Overall, while some risks have increased, the dynamics for equity markets remain attractive in a technology cycle driving productivity and a broadening manufacturing cycle supporting a recovery in stocks exposed to industrial sectors.

Hence, we see opportunities not only in semiconductors and stocks exposed to AI data centres (especially after the recent valuation reset in those stocks) but also across traditional cyclical manufacturing. This combines structural drivers in areas where capacity is scarce, and will take years to meet demand, with a more traditional cyclical recovery.

In fixed income, we think shorter maturities, asset-backed securities and selected credit offer attractive income without requiring investors to take a view on the outlook for long-term yields.

However, the tight spread between corporate credit and government bonds keeps us modestly underweight in broad developed-market credit. Where we do prefer sovereign debt in developed markets is in the UK and Canada, where interest-rate expectations appear too high given the middling economic growth and relatively contained inflation in those markets. We are more cautious on US long duration because government borrowing through bond markets, the demand for capital from major AI groups and sticky inflation keep the balance of risks skewed towards higher yields.

Emerging-market local-currency debt provides an additional source of income and duration where high real yields, credible policy and stronger external balances support both bonds and currencies.

Finally, infrastructure and commodity-linked exposures provide us with a partial hedge against recurring supply shocks, one of our key themes for the year ahead. The central portfolio risk is not of a modest forecast error, but of a profound shift in market or economic conditions with wide-ranging impacts. This could mean severe supply disruption, a disorderly bond-market repricing, an AI-driven productivity boom or a technology bust.

Static allocations are poorly suited to such widely differing outcomes, so we favour portfolios that maintain liquidity, actively manage concentration risks and can rotate allocations effectively, whatever comes over the horizon.

This is a principle that applies across public and private markets. Investors should allocate capital where they are best compensated for the risks they take, whether that is through equities, liquid credit, asset-backed securities, private debt or infrastructure. Strategies must connect these perspectives and access structural themes through whatever part of the capital structure and market offer the most attractive risk-adjusted return.

Portfolio conclusion



Stay invested in resilient earnings and durable income. Avoid paying for future earnings that are uncertain and long-term bonds that do not offer genuine diversification.

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AVIVA INVESTORS

Portfolio implementation

Global equities

WHAT WE THINK

Broadly bullish, but more selective.

PREFERRED EXPRESSION

Powerful earnings support the asset class, but concentration and higher yields increase the risk of a market correction.

US equities

WHAT WE THINK

Preferred region.

PREFERRED EXPRESSION

AI investment and earnings leadership remain strong. We focus on delivery and companies that control bottlenecks in the AI buildout.

Developed-market government bonds

WHAT WE THINK

Selective.

PREFERRED EXPRESSION

We prefer UK and Canadian short-dated bonds. We remain cautious on US long duration and term-premium risk.

Corporate credit

WHAT WE THINK

Modest underweight; selective carry.

PREFERRED EXPRESSION

Healthy fundamentals and attractive all-in yields support income, but tight spreads limit the upside. We favour shorter-duration investment-grade debt, asset-backed securities and resilient issuers.

Emerging-market local-currency debt

WHAT WE THINK

Positive, selective.

PREFERRED EXPRESSION

High real yields, credible monetary policy and stronger external balances support income and potential capital gains, but country selection remains essential.

Currencies

WHAT WE THINK

Mild bullish bias to the US dollar. We prefer emerging markets.

PREFERRED EXPRESSION

US cyclical resilience supports the dollar but selected emerging-market currencies offer superior real income.

Infrastructure and real assets

WHAT WE THINK

Positive.

PREFERRED EXPRESSION

We favour energy security and supply-chain investment that supports durable demand and cash flows.

Diversifying strategies

WHAT WE THINK

Positive.

PREFERRED EXPRESSION

Strategies that are neutral on macroeconomic or market developments can help manage potential regime shifts and the risks of concentration in some market indices.

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AVIVA INVESTORS

Asset allocation table

	Underweight -5	-4	-3	-2	-1	0	1	2	3	4	Overweight 5
EQUITIES									3		
United States									3		
Europe						0					
United Kingdom						0					
Japan								2			
Pacific basin ex-Japan				-2							
Emerging markets									3		
GOVERNMENT						0					
United States					-1						
United Kingdom								2			
Euro zone					-1						
Japan						0					
Australia							1				

	Underweight -5	-4	-3	-2	-1	0	1	2	3	4	Overweight 5
CREDIT					-1						
US investment grade					-1						
European investment grade					-1						
UK investment grade						0					
EUR high yield					-1						
US high yield					-1						
Emerging govt (hard currency)						0					
Emerging govt (local currency)								2			
CASH						0					
CURRENCIES (versus USD)						0					
GBP					-1						
EUR					-1						
JPY						0					
AUD							1				
EM FX							1				

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AVIVA INVESTORS

Economic outlook and forecasts



GDP; annual growth

2026
2.4%

2027
2.3%

2028
2.2%

Inflation; Q4/Q4

2026
4.0%

2027
2.2%

2028
2.3%

UNITED STATES

The US economy remains the strongest among the major developed markets. We expect GDP growth of 2.4 per cent in 2026 and 2.3 per cent in 2027, supported by resilient household consumption, strong business investment and continued AI-related capital expenditure. Domestic demand is running hot, although housing remains subdued and non-AI investment has slowed. Inflation risks remain elevated. Headline inflation is expected to move above four per cent in the near term, while persistent services inflation should keep underlying inflation above target. We expect the Federal Reserve to raise interest rates further as it seeks to prevent strong demand and the energy shock from driving inflation higher. A prolonged energy disruption is the principal downside risk to the US economy, as it would squeeze real incomes, increase the likelihood of more persistent inflation and force further interest-rate rises.



GDP; annual growth

2026
1.0%

2027
1.2%

2028
1.5%

Inflation; Q4/Q4

2026
4.1%

2027
2.3%

2028
1.9%

EURO AREA

The euro-area economy has proved more resilient than expected despite higher energy prices and geopolitical uncertainty. We expect GDP growth of around one per cent in 2026 and 1.2 per cent in 2027, as a likely normalisation in energy prices supports real incomes, while financial conditions and German fiscal expansion lift domestic demand. Labour markets remain relatively robust, although real wage growth is close to zero. Inflation should rise to around 4.1 per cent year-on-year by end-2026 before falling to 2.1 per cent by end-2027 as the effect of energy price rises unwind. We expect one further interest-rate rise by the ECB, to 2.75 per cent, followed by a prolonged pause. Political risk remains high, particularly in France, where fiscal consolidation and the 2027 presidential election have added a risk premium to assets. Germany's coalition government also remains fragile. The main macroeconomic risk is a persistent energy shock that would prolong inflation, increase the risk of more rate hikes and weaken growth.

The figures presented in this section are Aviva Investors forecasts unless otherwise stated.

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AVIVA INVESTORS

Economic outlook and forecasts



UNITED KINGDOM

GDP; annual growth

2026
1.5%

2027
1.0%

2028
1.2%

Inflation; Q4/Q4

2026
3.9%

2027
2.6%

2028
1.6%

The UK economy should continue expanding modestly in 2027, constrained by weak productivity, subdued private investment and a soft labour market. We expect GDP growth of around 1.5 per cent in 2026 and one per cent in 2027. Energy prices should eventually come down, supporting household incomes and activity next year, but monetary policy is now restrictive and will offset part of that benefit. Inflation is expected to rise towards 3.9 per cent by end-2026 before falling towards 2.5 per cent by end-2027 as energy effects fade and wage growth moderates. But fiscal and energy risks still dominate the outlook. The government's budget in October 2026 was widely seen as deferring crucial questions on spending and taxation. The spending review in 2027 and subsequent fiscal decisions will expose the tension between spending pressures, defence commitments and the government's self-imposed rules designed to contain day-to-day spending and reduce national debt. Modest growth, low productivity assumptions or higher borrowing costs could revive pressure for tax rises, spending restraint or changes to those rules. Persistently high energy prices would squeeze activity, raise inflation and prompt further Bank of England tightening, deepening the slowdown.



JAPAN

GDP; annual growth

2026
0.9%

2027
1.0%

2028
0.8%

Inflation; Q4/Q4

2026
2.5%

2027
1.5%

2028
2.0%

The Takaichi administration and Bank of Japan have successfully reflated the economy and are likely to keep it running hot, while managing their communications to help limit further inflation and yen depreciation. Core consumer-price inflation has risen to three per cent and electricity subsidies and prospective VAT cuts will largely shift rather than reduce demand. Businesses continue to pass on labour costs, and cash earnings are growing by four per cent year-on-year. GDP should expand by around one per cent in both 2026 and 2027, supported by electronics, exports and technology investment, although subdued consumption, weak housing and a shrinking workforce will constrain growth and intensify labour scarcity. Quarterly rate hikes would do little to close the US rate differential and, alongside terms-of-trade pressures, could push the yen back towards 160 to the US dollar. However, further interventions similar to the joint action by Japan and the US in July 2026 might limit volatility. Even if the Bank of Japan gradually raises rates towards restrictive levels, 30-year government bond yields near four per cent appear to have priced in much of that risk premium.

The figures presented in this section are Aviva Investors forecasts unless otherwise stated.

Economic outlook and forecasts



CHINA

GDP; annual growth

2026
4.5%

2027
4.3%

2028
4.1%

China can achieve its 4.5 per cent growth target through infrastructure investment, technology upgrading and credit directed towards state-owned enterprises, local governments and financing vehicles. Exports will need to provide additional support, further expanding a trade surplus already above $1 trillion annually and increasing tensions with trading partners. China's dominance across manufacturing, autos, chemicals and critical materials will be challenged by efforts in other markets to de-risk trade and supply chains, but adjustment will be gradual and incomplete. Excess capacity and limited progress in the government's policy to control destructive price wars between domestic companies should keep Chinese consumer-price inflation at around zero to one per cent. There is even a risk of deflation once oil prices stabilise. Overall risks to 2027 growth are tilted downwards. Domestic demand remains weak as the prolonged property depression damages household finances, confidence and consumption. An ageing population reinforces the disinflationary trend. The state-led, export-oriented model is likely to evolve steadily rather than undergo sudden change, while rising dissatisfaction, nationalism and geopolitical tensions remain important risks.



CANADA

GDP; annual growth

2026
1.0%

2027
1.5%

2028
2.0%

Inflation; Q4/Q4

2026
2.9%

2027
2.4%

2028
2.0%

Canada's economy has held up better than expected, but we remain somewhat more cautious than the market consensus. Growth should extend into 2027 as the drag from financial conditions eases and if, as we expect, the Bank of Canada delivers fewer hikes than markets are pricing in. Trade tensions with the US, softer employment growth and weaker business confidence should nevertheless prevent a stronger acceleration. We expect GDP growth of one per cent in 2026 and 1.5 per cent in 2027. Labour-market conditions remain resilient but are gradually loosening, with slower employment growth but vacancies still low. Inflation is likely to remain above target, with headline consumer-price inflation reaching an annual rate of 2.9 per cent by the end of this year before moderating to 2.4 per cent by the end of 2027, largely as energy pressures fade. We expect one to two additional rate hikes, fewer than currently priced by the market. The main risks are renewed energy-price increases, more persistent inflation requiring further interest rate rises, and an escalation in the trade dispute with the US.

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Key economic projections

Figure A: GDP growth projections (per cent)

	2024	2025	Forecast 2026	2027	2028
United States	3.0	2.3	2.4	2.3	2.2
Euro zone	1.2	1.3	1.0	1.2	1.5
United Kingdom	1.1	1.2	1.5	1.0	1.2
Canada	2.0	1.9	1.0	1.5	2.0
Japan	0.1	1.2	0.9	1.0	0.8
China	5.0	5.1	4.5	4.3	4.1
WORLD	3.5	3.5	2.9	3.1	3.1

Forecasts are not a reliable indicator of future performance
Source: Aviva Investors, Macrobond.
Data as of 13 November 2026.

Figure B: CPI inflation projections (per cent)

	2025				Forecast 2026				2027				2028			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States	2.7	2.4	2.9	2.8	2.7	3.9	3.5	4.0	3.6	2.7	2.8	2.2	2.2	2.2	2.2	2.3
Euro zone	2.3	2.0	2.1	2.1	2.0	3.0	3.3	4.1	4.0	3.3	3.0	2.3	1.9	1.9	1.8	1.9
United Kingdom	2.8	3.5	3.8	3.4	3.1	2.8	3.1	3.9	4.1	4.1	3.6	2.6	1.9	1.6	1.6	1.6
Canada	2.3	1.7	2.0	2.2	2.2	3.0	3.0	2.9	3.1	3.1	3.1	2.4	2.4	2.5	2.5	2.0
Japan	3.5	3.4	2.9	2.0	1.5	1.6	2.1	2.5	3.0	2.0	1.8	1.5	1.0	1.4	1.6	2.0

Forecasts are not a reliable indicator of future performance
Source: Aviva Investors, Macrobond. Data as of 13 November 2026.

Figure C: Interest rate projections (per cent)

	2025				Forecast 2026				2027				2028			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Federal Reserve	4.38	4.38	4.13	3.63	3.63	3.63	3.88	4.13	4.38	4.63	4.63	4.63	4.38	4.13	3.88	3.88
European Central Bank	2.50	2.00	2.00	2.00	2.00	2.25	2.50	2.75	2.75	2.50	2.50	2.25	2.00	2.00	2.00	2.00
Bank of England	4.50	4.25	4.00	3.75	3.75	3.75	3.75	4.00	4.00	4.00	3.75	3.5	3.05	3.50	3.50	3.50
Bank of Canada	2.75	2.75	2.50	2.25	2.25	2.25	2.25	2.50	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Bank of Japan	0.50	0.50	0.50	0.75	0.75	1.00	1.25	1.50	1.75	2.00	2.25	2.50	2.50	2.50	2.50	2.50

Forecasts are not a reliable indicator of future performance
Source: Aviva Investors, Macrobond. Data as of 13 November 2026.

The experts behind Horizons

Horizons is no ordinary investment outlook based on market consensus. Its insights reflect the real portfolio positions of Aviva Investors and our unique convictions on the outlook for the global economy and markets.

We bring together our foremost experts from across the business to shape our investment process, always challenging consensus and focusing on where we can make a real difference.



Vasileios Gkionakis
Senior Economist
and Strategist

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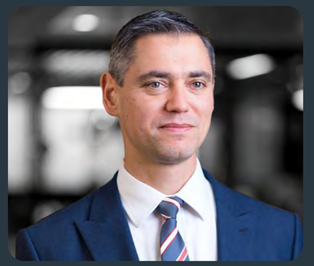

David Nowakowski
Senior Strategist,
Multi-Asset & Macro

Click to read profile



Michael Grady
Head of Investment Strategy
and Chief Economist

Click to read profile



Joao Toniato
Head of Global Equity Strategy

Click to read profile



Alice Mullan
Director, Research, Private Markets
Strategy & Research

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Webcast

Tomorrow's taking shape. Get a clearer view.

2027 Outlook

Tuesday 8 December 2026 | **15:00 GMT** | **45 MINS**

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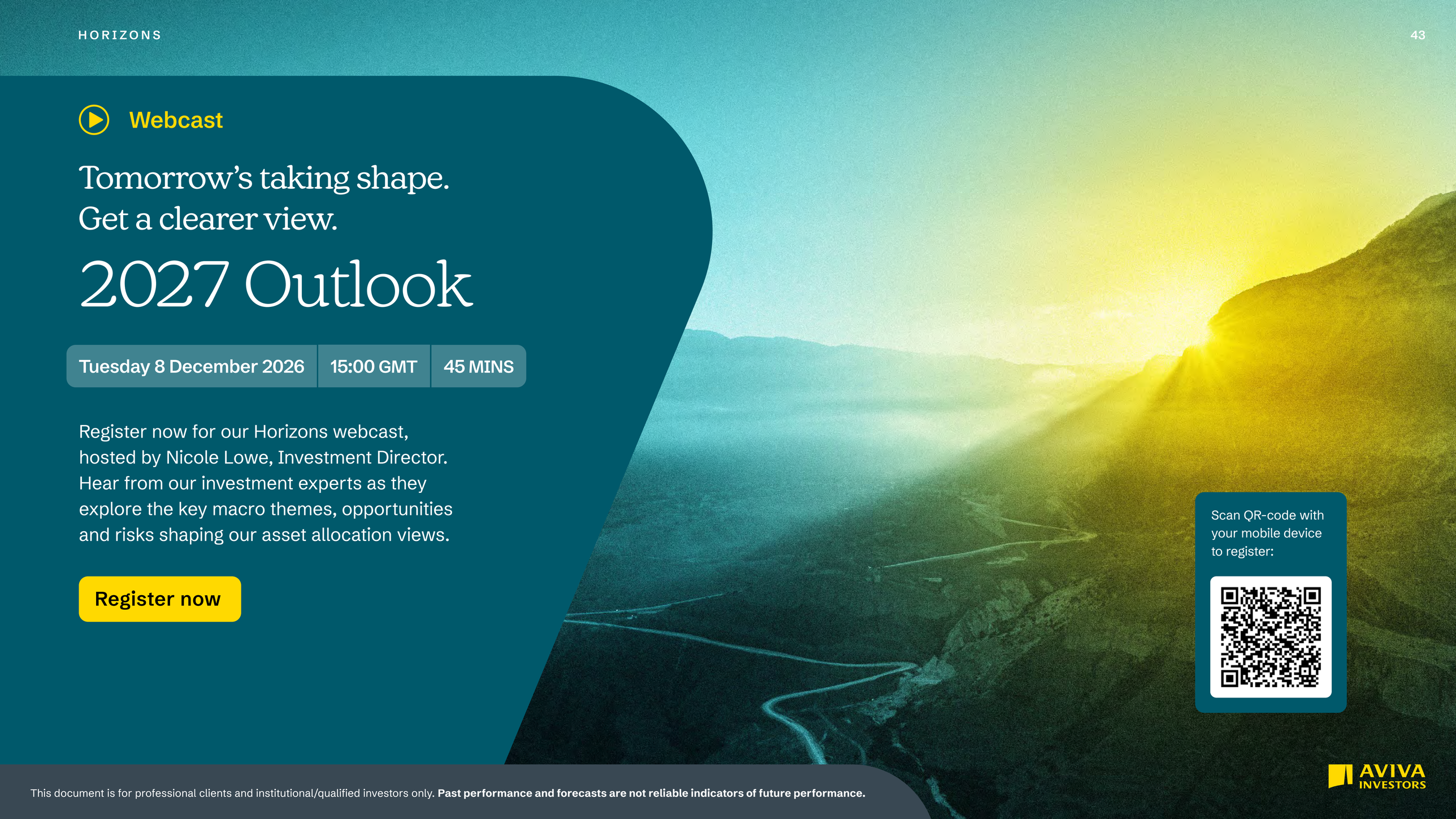

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Contact us

80 Fenchurch Street, London EC3M 4AE
+44 (0)20 7809 6000

avivainvestors.com